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Inflation Expectations and the Price at the Pump

Carola Conces Binder*

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Abstract

Consumer inflation expectations are positively correlated with gas prices. The optimal monetary policy response to energy price fluctuations depends on whether inflation expectations are excessively sensitive to gas prices, perhaps due to their high volatility and salience. I use multi-horizon microdata to study the dynamics of consumers' gas price and inflation expectations. Consumers do not “overweight” gas prices in their perception of inflation, relative to the expenditure share of gas. They believe gas price inflation is negatively autocorrelated and feeds into core inflation moderately. The impact of gas prices on inflation expectations fades quickly with forecast horizon.

Keywords: Gas prices; energy prices; inflation expectations; consumers; monetary policy

JEL codes: E31, E52, D84

Declaration of interest: none

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